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Roundtable discussion on the potential effects of TPP on the automotive manufacturing supply chain, with a particular focus on the auto rules of origin.

On behalf of the more than one million active and retired members of the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW), I want to thank you for the opportunity to share our views on the likely impact of the Trans-Pacific Partnership (TPP) on the United States automobile manufacturing industry.

UAW supports policies that strengthen the middle class and reduce economic inequality both here and abroad. It has been demonstrated time and time again that a vibrant middle class is needed in order to have a strong economy and democracy.

Over the past several years, we've met with the Administration, trade negotiators, members of Congress, and an array of stakeholders to discuss the TPP. From the outset we constructively worked in pursuit of an ambitious agreement that would create prosperity both here in the United States, and around the world for working families.

After analyzing and discussing the final text, we have concluded the TPP, regrettably, fails and repeats many of the mistakes of prior trade agreements that contributed to job loss, rising income inequality, and plant closings in the United States. In early December, the International Executive Board of the UAW unanimously voted to oppose the TPP.

It is important to look at the TPP, and for that matter all trade agreements, in a broader economic context. The U.S. lost 5 million manufacturing jobs between 2000 and 2014. According to the Economic Policy Institute's (EPI), *Manufacturing Job Loss: Trade, Not Productivity, Is the Culprit,*[i] trade and the recession were primarily responsible for the decline in employment. Between 2000 and 2007, 3.6 million jobs were lost to trade deficits, mostly in manufacturing. The Bureau of Labor Statistics data supports EPI's findings. Wages have fallen even though productivity has substantially improved. Labor unit costs have fallen between 2000 and 2014 from 121.8 to 94.9 for auto assembly and parts from roughly 121 to 86. Productivity has increased dramatically over the same period of time.

A 2014 study by the National Employment Law Project, states that the average factory worker makes less than the median wage for all occupations.[ii] Real wages in manufacturing fell between 2003 and 2013 at a rate faster than the rate for workers overall. One-fourth of manufacturing workers make less than $11.91 an hour. Auto worker wages in the U.S. have been suppressed and prior trade agreements have contributed to this troubling reality**.**

The U.S. imported $138 billion in car parts last year (Mexico's imports constitute the largest share). Imported parts amount to $12,135 of foreign content for every light vehicle built in America. Under

NAFTA, the flood of imported parts has intensified and the result has been that wages have declined and jobs have moved to Mexico. Adjusted for inflation, car part production workers' average hourly wages declined by 23 percent in the past decade. And between 2000 and 2014, employment in U.S. parts suppliers declined 36 percent.[iii] Of course, workers are also consumers so the economic distresses of lower wages and lost jobs impact businesses and lowers tax revenue for schools and other public services. NAFTA has had a lasting impact and the TPP will as well.

Again, trade agreements should not be looked at in isolation. It is important to look at the cumulative economic impact of lower wages and lost jobs in the motor vehicle sector. The Center for Automotive Research estimates that every assembly plant jobs supports 9 to 12 others at suppliers in the surrounding community. Automakers, their suppliers, their dealerships and the local business that supports them are responsible for more than 7.25 million jobs,[iv] more than any other manufacturing sector. The broader economic impact of lost jobs and plant closures needs to be looked at with this reality in mind in order to get an accurate picture of the impact to the U.S. economy. We are deeply concerned about the TPP's likely impact on the U.S. supply chain, motor vehicle assembly, and the wages of workers over time.

TPP's Likely Impact on the U.S. Motor Vehicle Industry

We strongly support policies that promote the exporting of U.S. made cars into foreign markets and have supported prior trade agreements. In 2014, 2.1 million light-duty vehicles were exported from the U.S., the first time auto exports topped 2 million and a 73% rise from 2004.

We are concerned that competitive pressures from low wage countries will increase under the TPP as remaining U.S. tariffs on manufactured goods are eliminated. *The Wall Street Journal* projects the combined U.S. trade deficit in manufacturing, including autos and auto parts, will increase by $55.8 billion under the TPP over the next ten years.[v]

We have repeatedly asked for an in-depth analysis on the possible ramifications of the TPP on the U.S. auto sector and the supply chain. We have not been made aware of any evidence to suggest the TPP will have a positive impact on the U.S. auto industry. However, there is ample reason to believe that the impact on U.S. employment will be negative.

The ramifications of the TPP concern us because it puts the interests of corporations and their pursuit of overseas profits before U.S.-based manufacturing. We already know what happens when overseas profits are put before working families. We had a trade surplus with Mexico in 1993, the year before the North American Free Trade Agreement (NAFTA) was implemented. Supporters of the trade agreement promised new jobs. Instead, U.S. trade deficits with Mexico cost almost 700,000 U.S. jobs by 2010 according to the Economic Policy Institute. Most of the jobs displaced were in manufacturing. Nearly every auto manufacturer and supplier has increased their operations in Mexico with the hopes of increasing their exports to the United States and elsewhere. Foreign direct investment has tripled in Mexico since NAFTA according to the International Monetary Fund.

U.S. corporations took advantage of NAFTA's extraordinary investor protections, trade liberalization, and low wages in Mexico to outsource U.S. jobs. The TPP includes many of the same investor protections as NAFTA. Again, proponents of the TPP rarely discuss their investment plans. Under NAFTA, dozens of companies in the motor vehicle sector closed U.S. plants while opening new plants in Mexico. The TPP includes several low wage countries and also creates a favorable environment for U.S. companies to move abroad. Again, proponents of the TPP rarely discuss their investment plans. Please also note that U.S. laws, including Buy America laws, are jeopardized as foreign investors seek damages in private courts to protest laws supporting U.S. jobs and protecting consumers. It is incumbent on every member of Congress to carefully study the incentives created by the TPP.

Market Access Provisions

Over half of all cars sold in the U.S. are not built by U.S.-based companies. Countries from around the world produce and sell cars in America without unfair trade barriers. The same cannot be said for many countries in the TPP as some import less than 7% of goods while undervaluing their currency, making their exports cheaper. Economists from across the political spectrum agree that currency manipulation has already cost millions of American jobs. It is not hard to understand why. Vehicles built overseas are routinely well over five thousand dollars cheaper because of undervalued currencies. Unfortunately, enforceable provisions to stop currency manipulation are not in the TPP.

Most tariff elimination in industrial goods will be implemented on entry. For the five new countries with which the United States does not already have FTAs (Brunei, Japan, Malaysia, New Zealand, and Vietnam), data from the Commerce Department indicates that 98 percent of all industrial and consumer goods, 99.9 percent of all transportation equipment, and 96.9 percent of all machinery will be duty free immediately. Please note, for automotive products this could be misleading, since Brunei, Japan, and New Zealand already have zero or nearly zero duties on imports of automotive products, and Brunei is a very small auto market. Malaysia and Vietnam have high import tariff levels. In Vietnam only 32% and in Malaysia only 74% of automotive products are immediately duty free under TPP. But even then, in both markets, many of the most important tariff categories will not be duty free for 12-13 years.

The UAW is disappointed that the TPP contains no specific conditions on the U.S. tariff phase-out period for motor vehicles and motor vehicle parts/components coming from Japan. More specifically, U.S. auto tariff reductions should have been tied to tangible increases in Japan's import penetration rate which lingers in the single digits and is the lowest of any Organization for Economic Co-operation and Development (OECD) country. The OECD historically averages a rate that is well above 50%.

Given the long history of Japan's refusal to take down its non-tariff barriers to foreign sales, the removal of U.S. tariffs should have been based on the real conditions in Japan's market. Thirty years of failed attempts have taught us a painful lesson. Decades of well-intentioned efforts by U.S. trade negotiators to open up the Japanese auto market to foreign competition have been unambiguous failures. Non-tariff barriers to foreign autos in the Japanese market are inherently structural, ever-changing, and impervious to American negotiating efforts.

For every vehicle we export to Japan, Japan exports roughly 100 vehicles to the United States. Japan has the most closed auto market in the developed world and the problem is not unique to U.S. exported vehicles. For example, Hyundai-Kia –which is gaining market share all around the world in the small vehicle market – spent nearly a decade trying to sell cars in Japan. They gave up in frustration.

Japan maintains a one-sided trade relationship with the United States and its other international trading partners without imposing prohibitive tariffs on foreign imports. Currency manipulation and a host of other practices are the primary drivers of this trade imbalance. For example, exclusive "keiretsu" arrangements between the Japanese government and Japanese automakers have effectively prevented foreign auto suppliers and companies from making significant inroads into the Japanese market, despite the absence of tariffs on automobiles and auto parts.

In summary, we are concerned that market access chapter will not successfully level the playing field for U.S. workers and manufacturers. Regrettably, the TPP does not present realistic opportunities for increased exports of U.S. made vehicles.

Currency Manipulation

American workers have already paid a heavy price as upwards of five million American jobs have already been lost worldwide due to currency manipulation.[vi] Economists from the right, center, and left plus majorities in the House and Senate urged U.S. trade negotiators to insist on enforceable measures to curb currency manipulation in the TPP. Industry analysists have estimated a weak yen adds $6,000 to $11,000 per car in profits for Japanese imports. The problem extends well beyond Japan. Conservative economist Dr. Laffer puts it best: "If TPP does not include such a currency discipline, it is reasonable to expect certain countries in the negotiations that have historically and repeatedly manipulated their currencies to continue to do so, with a profound negative impact on the U.S. economy and jobs market."[vii]

The status quo is unacceptable. The International Monetary Fund (IMF) principles should have been utilized when evaluating whether a TPP FTA member country has violated this rule against currency manipulation. The TPP should have included: protracted large-scale intervention in one direction in the exchange market; excessive and prolonged official or quasi-official accumulation of foreign assets; and large and prolonged current account deficits or surpluses.

Given the interconnection between international trade and global finance, the TPP failure to prohibit the manipulation of exchange rates to gain an unfair competitive advantage is an enormous problem that threatens to undermine any potential benefits of the agreement. More consultation will not solve this problem. Japan's Finance Minister, Taro Aso, announced that the joint declaration would not have binding power on Japan's monetary and currency policies.[viii] "There won't be any change" in Japan's currency policy, he declared. We strongly recommend the Commission factor in the impact of currency practices when analyzing the TPP.

Auto Rules of Origin

The TPP's 45% requirement for automobiles, with the vast number of countries participating in the agreement, will put production and employment in the U.S. at risk. It will allow free riders to prosper. We are disappointed with the auto rules of origin and fear they will create more incentives for companies to move operations to low wage countries.

Over half of the value of a car or truck could be built by countries that are not in the agreement, and so those countries would receive the benefits of the TPP. We are heading in the wrong direction in this area. In NAFTA, the requirement was 62.5%. By comparison, the TPP is worse than NAFTA. In the U.S.-Australia FTA, the requirement was reduced to 50% and in the U.S.-Korea FTA; the percentage was further reduced to 35%.

To make matters worse, the threshold for many auto parts is 35%. It is important to note that low parts thresholds undermines the integrity of the whole vehicle standard since parts that meet the threshold are considered to be wholly originating when added to the finished vehicle.

Labor Standards

Labor standards are important not just from a human rights perspective but also from an economic one. Poor labor standards in foreign nations have a real economic impact in the United States as companies relocate to take advantage of workers who lack basic rights and are underpaid. Since the passage of NAFTA, low wages and inadequate workers' rights (combined with sweeping investor protections) in Mexico have resulted in billions of dollars of investment by U.S. companies in Mexican operations to serve the U.S. market.

Workers in Mexico are often put in harm's way for exercising their most basic rights. Most make less than $4 dollars an hour (not including benefits) despite booming profits and record growth for the industry. Company unions more aligned with employers than workers dominate and exclude independent unions and unbiased participants. The TPP does **not** create a concrete, enforceable plan to ensure basic rights for Mexican workers. Low wages in Mexico put downward pressure on the wages of U.S. workers. Our middle class is negatively impacted by bad labor conditions and the offshoring of jobs.

TPP backers argue that the labor chapter will effectively address structural problems found in Mexico and elsewhere. Unfortunately the chapter often relies on terms without definitions. For example, while countries are required to adopt and maintain laws to provide for a minimum wage, that wage could be set at 5¢ per hour. Terms like "may", "endeavor" and "as appropriate" appear before some specific obligations. Many TPP countries notoriously repress workers' rights and there is no reason to think they will not maintain this status quo.

The only workers' rights cases that have been pursued have been because of petitions filed by the AFL-CIO. Nearly eight years after the petition on Guatemala was filed, workers are still awaiting final action. The case involving Honduras has not gone beyond informal discussions after more than three years. In short, labor chapters in free trade agreements have failed to fix abuses and the TPP contains many of the same weaknesses.

Docking

The TPP's docking clause is an avenue for additional countries to join the agreement in an expedited manner. The docking clause will expand the benefits of the agreement to other countries. Countries ranging from Indonesia, Thailand, and South Korea have been identified as potential entrants. This clause provides an extremely difficult challenge for the Commission's analysis of the TPP.

The implementing legislation that the President submits to Congress must require a specific vote of Congress before we enter formal negotiations. TPP should not be expanded without a specific grant of authority for each new entrant. Trade promotion authority should not be granted to additional countries without approval by the full House and Senate. A possible vote on lowering tariffs once a deal has been reached is woefully insufficient for working families.

Conclusion

In summary, low wage countries with terrible human rights records and a long history of maintaining closed markets are in the TPP and many more could join this agreement in the future. The long term economic implications are troubling as the TPP will likely increase our manufactured goods trade deficit, negatively impact working people, and harm communities across the country. We urge the Congress to look at the agreement in its totality. Thank you for considering our views. I am looking forward to answering your questions.

[i] Scott, Robert. Economic Policy Institute, “Manufacturing Job Loss: Trade, Not Productivity, Is the Culprit” August 11, 2015.

[ii] Ruckelshaus, Catherine and Sarah Leberstein, “Manufacturing Low Pay: Declining Wages in the Jobs that Built America’s Middle Class.” November 2014.

[iii] Galston, William A. “How the Vise on U.S. Wages Tightened,” *The Wall Street Journal.* March 31, 2015.

[iv] Hill, Kim, Deb Menk, Joshua Cregger, and Michael Schultz. Contribution of the Automotive Industry to the Economists of All Fifty States and the United States. January 2015.

[v] U.S. International Trade Commission (duties); Peter A. Petri, Michael G. Plummer & Fan Zhai, published by the Peterson Institute for International Economics (projections).

[vi] Bergsten, C. Fred. Gagnon, E. Peterson Institute for International Economics. “Currency Manipulation, the US Economy, and the Global Economic Order.” December 2012.

[vii] Laffer, Dr. Art. American Automotive Policy Council, “AAPC Statement on Dr. Art Laffer’s Currency Manipulation Study” December 2, 2014.

[viii] Tetsushi, Kajimoto. Reuters, “Finance Minister Aso: TPP Deal won’t have binding power on Japan’s forex policy” November 5, 2015.

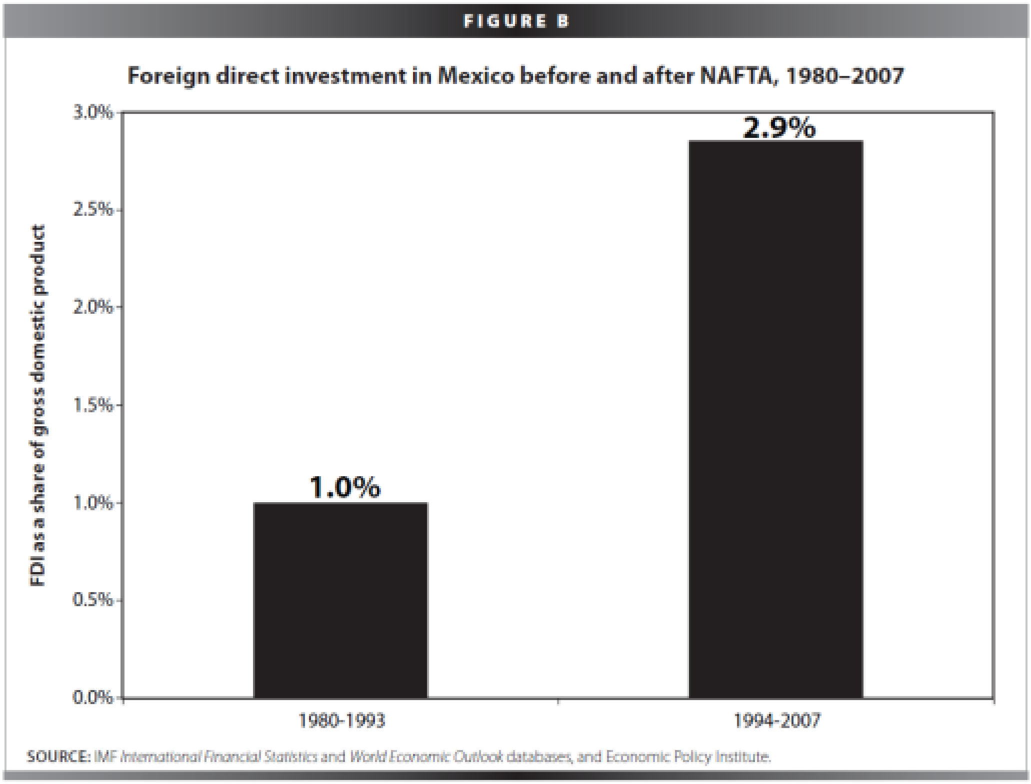

Figure 1 Source: IMF International Financial Statistics and World Economic Outlook Databases, and Economic Policy Institute.

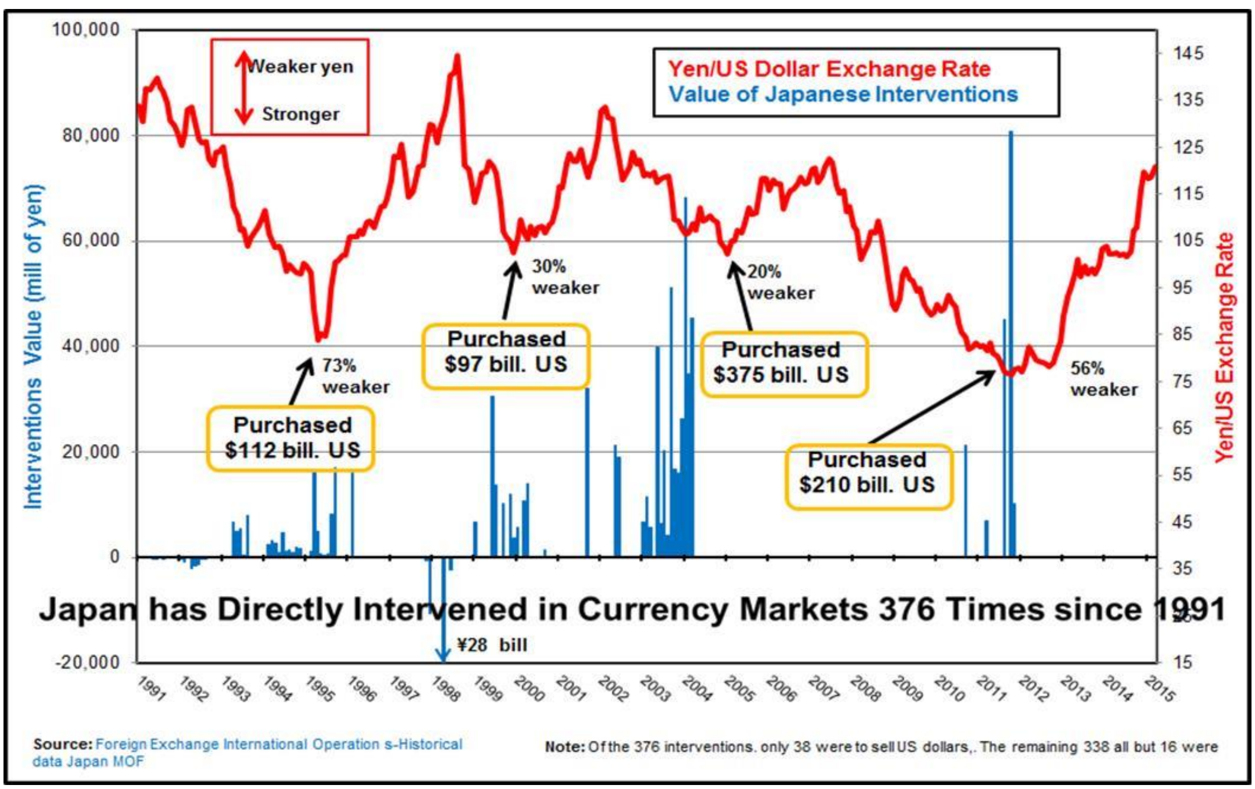

Figure 2 Source: Foreign Exchange International Operation s-Historical data Japan MOF.